A SPECIAL BENEFIT FROM THE
CALIFORNIA PARTNERSHIP FOR LONG-TERM CARE

INFLATION PROTECTION: WHY IS IT SO IMPORTANT?

Information you need to know when considering the purchase of long-term care insurance for yourself or family members

CALIFORNIA PARTNERSHIP FOR LONG TERM CARE

CALIFORNIA DEPARTMENT OF HEALTH SERVICES

A FEATURE AVAILABLE IN POLICIES ENDORSED BY

THE CALIFORNIA PARTNERSHIP FOR LONG-TERM CARE

A PROGRAM OF THE CALIFORNIA DEPARTMENT OF HEALTH SERVICES

This booklet will provide you with information regarding Inflation Protection, a feature available for Californians who purchase insurance policies certified by the California Partnership for Long-Term Care.

You can order other brochures from the California Partnership for Long-Term Care, which contain valuable information about other special features of Partnership policies.

California Partnership for Long Term Care

California Department of Health Services

WHAT IS INFLATION?

Simply stated, inflation means that products or services will cost more in the future than they do today. A loaf of bread once cost a quarter. Today, it is over a dollar. Some costs rise slowly. Some rise faster than others and occasionally some actually decline from year-to-year. But, long-term care is expensive now and costs will almost certainly rise in the future.

WHY IS INFLATION PROTECTION SO IMPORTANT FOR LONG-TERM CARE INSURANCE?

We hear a lot about inflation. It can get pretty confusing. When you are considering the purchase of long-term care insurance for yourself or a family member, it is extremely important to look closely at how inflation can affect your future. Without inflation protection in your long-term care insurance policy, you may find yourself with benefits that pay only a small portion of the actual costs of your future long-term care. If the time ever comes when you need care in your home or in a long-term care facility, you need to make sure that the insurance policy will pay most of your expenses.

If you purchase a policy without inflation protection and use it 20 years from now, you will need to pay the difference between what the insurance pays, which is based on costs 20 years earlier, and the actual cost of care. That is because the insurance benefits will not have kept up with the rising costs of services.

The built-in inflation protection included in all Partnership policies increases your benefits by 5% each year to reduce the risk that you will have to pay large, unanticipated expenses from your savings, income or other personal assets.

There are three things to consider in order to understand why inflation protection is built into all California Partnership policies:

1. How have long-term care costs increased?

This chart shows how much long-term care costs have risen in California.

YEAR	AVERAGE ANNUAL NURSING HOME COSTS*
1980	$15,500
1988	$28,000
1990	$32,000
1992	$36,000
1994	$38,000
1996	$40,500
1998	$44,000
2000	$48,500
2002	$51,500
2003	$55,000

**Based on data from California Office of State-Wide Health Planning & Development*

Costs have risen rapidly for all forms of long-term care in California – such as nursing home facilities, assisted living programs, and especially, in-home care.

A stay in a California nursing home rose from an average of only $42 a day (about $16,000 a year) in 1980 to $150 a day, or approximately $55,000 a year, in 2003. The cost of long-term care rose an average of 5.2% annually from 1984 through 2003.

The long-term care insurance you buy today must cover rising costs when you need care 10, 20, or more years from now, otherwise, it is of little value. That is why the California Department of Health Services **certifies only** insurance policies that:

(a) Automatically increase your benefits by 5% compounded each year (with the option of choosing simple interest at age 70); and,

(b) Provide opportunities to upgrade your policy to increase your maximum daily benefit should actual long-term care costs increase at a rate greater than the built-in 5% inflation adjustment.

2. When Are You Likely To Need Care?

You are wise to consider long-term care insurance now.

The possibility of needing long-term care due to an illness or physical disability is something most people would rather not think about. As we get older, and because we are living longer, the likelihood that we will need some kind of assistance is very real.

About half of all people will need long-term nursing home care at some time in their life.[1] Although it's impossible to predict if, or exactly when, you might need long-term care, people generally need such care during their last years of life. People today are living longer than ever – often into their 80s and 90s. New medical technology and future discoveries may expand life expectancy even more!

As the life expectancy chart on the next page shows, it could easily be 20, 30 or more years into the future before you need to use your benefits. Without some inflation protection built into your long-term care insurance poli-

[1] *Lifetime Use of Nursing Home Care*, Kemper & Murtaugh, The New England Journal of Medicine, 1991; 324(9): 595

AGE TODAY*	LIFE EXPECTANCY	ANNUAL COST OF CARE IN LAST YEAR**
50	36 yrs to age 86	$318,500
55	31 yrs to age 86	$250,000
60	27 yrs to age 87	$205,000
65	23 yrs to age 88	$169,000
70	19 yrs to age 89	$139,000
75	15 yrs to age 90	$114,000
80	12 yrs to age 92	$99,000

**Source: Life Expectancy Data: California Department of Health Services, Center for Health Statistics, July 2001. **Cost Data: The Partnership, assuming 5% annual inflation.*

cy, how would you pay these costs?

You can see that if you are 60 years old now, you may not need long-term care for another 27 years or more. Even if you are 70 years old, it could easily be another 19 or more years before long-term care is necessary.

3. How much will costs rise for long-term care in the future?

Planning Today For Tomorrow's Costs.

By now it must be clear that, when you buy long-term care insurance, you need to ask yourself this question: ***How will my benefits look 10, 15, or even 30 years from now?***

Will the coverage you buy today be adequate to pay most of the cost of care when it's needed? Your savings, income or other personal assets must be used to cover any additional costs.

No one can predict the future, but the chart on the next page clearly shows that the cost of failing to protect yourself can be enormous, for yourself and your family.

LENGTH OF CARE	TODAY'S COST	FUTURE COSTS* IN 14 YEARS	IN 28 YEARS
1 year	$55,000	$109,000	$216,000
2 years	$110,000	$218,000	$431,000
3 years	$165,000	$327,000	$647,000
4 years	$220,000	$435,500	$862,500
5 years	$275,000	$544,500	$1,100,000
10 years	$550,000	$1,100,000	$2,200,000

**Based on projected increases of 5% per year. All numbers rounded to the nearest thousand for clarity.*

Depending on how much care you will need and when you will need it, long-term care could cost you $200,000, $600,000, or even **a million dollars or twice that amount!**

INFLATION AND LONG-TERM CARE – THE BIG PICTURE.

In the 1980s and the 1990s, the rise in long-term care costs has been much greater than inflation in such things as food or clothing that are included in the consumer price index (CPI). Long-term care and health care costs continue to rise at a rate much faster than increases in costs for a loaf of bread or a new television.

Even if future long-term care costs were to rise by only 5% a year, **the cost of a nursing home stay would double to about $110,000 a year by the year 2017.**

Of those who enter nursing homes, 55% will have *total lifetime use* of *at least* one year and 21% will have total lifetime use of five years or more.[2] This means that more than half the

[2] The New England Journal of Medicine, 1991; 324(9): 595

people who go into a nursing home will spend between $55,000 and $275,000 (in 2003 dollars) and one person out of every five will spend even more, perhaps much more, than that. And we shouldn't forget that before they enter a nursing home, many people would have already struggled for years with the cost of long-term care in their own homes.

HOW DOES ANNUALLY COMPOUNDING INFLATION PROTECTION WORK?

Each year, every Partnership policy increases the amount of its benefits by 5%. The premium you pay does not increase as a result of the increase in benefits. If the original policy was written to cover long-term care facility services at $110 per day, a 5% adjustment would be added to the policy benefit, bringing the coverage to $115.50 per day after the first year. At the end of the second year, the policy increases to $121. This annual adjustment is repeated each year. Consequently, the overall benefit amounts increase throughout the life of the policy to help keep pace with the rising costs of long-term care.

Without inflation protection, the difference between what your policy will pay and the actual cost of each day of long-term care is likely to be significant. For example, let's assume that you buy a $110 per day benefit because you find that nursing home costs are currently about $110 per day in the area where you live. If, during the next 20 years, costs should increase from that $110 per day to $290 per day, you would have to pay the additional $180 per day, or $65,700 per year, from your own resources if your policy did not have inflation protection. It only makes good sense to include inflation protection in every policy you consider.

When you purchase a Partnership policy, the increase in benefits that inflation protection provides also increases the value of your Partnership policy's Medi-Cal Asset Protection feature. *This unique asset protection is a valuable, no-cost feature available only in policies which display the Partnership's logo*.

Please contact the Partnership toll-free at 1-800-CARE-445 and ask for the brochure about the special Medi-Cal asset protection feature only available in a Partnership policy.

WHAT INFLATION PROTECTION MEANS – THE TALE OF JAMES AND ROBERT.

James and Robert are both 65 and healthy. They both buy long-term care insurance policies on the same day in 2003.

James buys a Partnership policy that, like every Partnership policy, includes inflation protection that increases benefits by 5% a year, compounded. Robert buys an ordinary long-term care policy without built-in inflation protection.

Both of their policies have a total benefit limit of $109,500, which in 2003 is enough to pay for about two years of nursing home care. If they were to need long-term care within a few months, their policies would pay for $109,500 in long-term care, but it will be 20 years before James and Robert require long-term care.

They will then be 85 and the cost for 1 year of long-term care is likely to have risen to $146,000; two years will cost nearly $292,000!

James' Partnership-certified policy will now pay up to $290,500 in long-term care costs, because of its built-in 5% inflation protection feature.

The policy that Robert bought *without* inflation protection will still only pay the original $109,500 in benefits. Robert's cost for his long-term care has also risen to $290,500 and Robert will have to pay the difference – more than $181,000 – out of his own pocket.

HOW CAN THE PARTNERSHIP FOR LONG-TERM CARE HELP?

The answer: The Partnership is an innovative program between select private insurance companies and the State of California Department of Health Services. The specially-trained insurance agents who sell policies certified by the Partnership can offer you quality long-term care insurance with built-in automatic inflation protection[3] to help cover rising long-term care costs, at prices that are affordable to middle-income Californians.

[3] At a 5% annual compounding rate (with the option of choosing simple interest at age 70).

To learn more about the special **Inflation Protection** feature of the Partnership policies and other quality features endorsed by the State of California Department of Health Services, we urge you to speak with a specially trained representative from one of our partner companies.

Please contact the following companies at the toll-free phone numbers listed below:

Bankers Life and Casualty

(888) 2828-BLC

GE Financial Assurance

(800) 354-6896

John Hancock Life Insurance Company

(800) 377-7311

New York Life Insurance

(800) 224-4582

CalPERS Long-Term Care Program

(800) 205-2020

** All California public employees, retirees and their spouses, siblings (age 18 and older), parents and parents-in-law are eligible to apply. Call CalPERS for open enrollment period dates*

To get more information about long-term care insurance or to obtain the name of a specially trained long-term care insurance agent in your area, call the numbers above. Or call the Health Insurance Counseling and Advocacy Program at 1-800-434-0222 and ask for the Department of Aging's consumer booklet titled, *Taking Care of Tomorrow*.

THE MISSION OF THE CALIFORNIA PARTNERSHIP FOR LONG-TERM CARE

The Mission of the California Partnership for Long-Term Care is to increase the number of middle income Californians who have quality, long-term care insurance coverage that protects them from impoverishment.

The California Partnership for Long-Term Care
is a program of the California Department of Health Services

California Partnership for Long Term Care

California Department of Health Services

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Rev. 7/2003